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THE EFFECT OF BORROWING STRATEGIES ON PROSPECTS FOR ECONOMIC RECOVERY AND FUTURE INDUSTRIAL DEVELOPMENT IN AFRICA*

Note by the
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THE EFFECT OF BORROWING STRATEGIES ON PROSPECTS FOR ECONOMIC RECOVERY AND FUTURE INDUSTRIAL DEVELOPMENT IN AFRICA

One of the main features of Africa's present economic condition is a high level of external debt which has been contracted over the years. for the financing of economic development. As a result of the worldwide economic crisis, whose effect on Africa has been further compounded by natural disasters, African countries are now placed in a position of incapacity to service their external debt because of declining export revenues and this is constituting the single most important impediment to economic recovery. It is therefore not surprising that all discussions in international forums on the strategies of economic recovery tend to center around the issue of how to deal with Africa's external debt.

Although the creditor institutions of developed countries tend to look at Africa as a monolithic unit from the stand point of credit worthiness, the fact is that a country by country analysis indicates that this is far from being so. The reason is because over the past 20 years various African countries, starting from different positions in terms of resource endowment, development priorities and differing commercial and political relations with the rest of the world, embarked on development strategies funded and sustained by borrowing strategies that are unique to each country. It is therefore important that in order to appreciate the medium term recovery prospects as well as the long term development potential of each country that an analysis should be done not only of the absolute and relative levels of indebtedness of each country, but also the structure of total debt in terms of funding sources and aggregate sectoral allocations of these resources to date.

In this respect an analysis has been done of the sectoral application of loans funded by IBIRD to 7 of its principal client states of Africa namely, Ivory Coast, Egypt, Kenya, Morocco, Tunisia, Zambia and Nigeria. The IBIRD has been chosen in this case because the World Bank provides over 90% of all multilateral credit to African states. The rest being covered by the ADB, the EIB and a host of other regional development institutions. An analysis of IBIRD loans therefore gives a fairly good indication of the global application of multilateral credit in Africa. The analysis (see appendix) indicates that Nigeria which is the leading World Bank borrower on the African continent has allocated nearly 40% into agriculture which accounts for the largest share whereas 21.9% has been channelled into industry.

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The Ivory Coast has given top priority to agriculture as well (45%) but seems to have paid little attention to industry. Egypt and Morocco however have concentrated the highest proportion of their multilateral resources in industry which has received respectively 42% and 33% of resources from the IBRD. Kenya seems to concentrate a rather high proportion of its World Bank credits into public utilities - 40%. Overall the table indicates that the major borrowers from Africa South of the Sahara have either not given high priority to industrial development or have preferred to finance it from funding sources other than multilateral institutions. However the encouraging sign is that the total resource allocation to productive sectors (agriculture and industry) is at a healthy level except in Tunisia and Kenya.

A further analysis has been done of the total external debt of some key African countries with a break-down by funding sources which can be generally classified as multilateral, bilateral, suppliers or financial markets. The analysis shows that the Ivory Coast and Nigeria have used the financial markets as their main borrowing source and such commercial credit constitutes approximately and respectively 58% and 81% of their total external debt. In fact Nigeria alone accounts for nearly 50% of all the commercial credits that has been mobilized by all countries in Africa, South of the Sahara. Most of the countries studied seemed to have concentrated their borrowing activities on bilateral basis. This applies to Egypt (58.7%), Tunisia (54.7%), Zambia (47.3%), Sudan (52.7%) and Zaire (52.0%). It is to be noted that in the case of Egypt and Tunisia a substantial portion of the credits of a bilateral nature are due to capital inflows from the Arab Petroleum Exporting countries of the Middle East. It is also note-worthy that Kenya and Tanzania rely on multilateral institutions as their largest funding sources : 47.8% and 51.4% respectively. This is particularly significant in the case of Kenya where nearly 40% of all its multilateral credits have gone into public utilities and only 32% has been allocated to productive sectors.

The weighted combination of funding sources used in the borrowing strategies of each country can be translated into average borrowing terms (average interest rates, average maturity and average grace period). The average borrowing terms have a direct bearing on the balance of payment position of the country since the debt service ratio (defined as the ratio of debt service to export earnings) will determine the country's capacity to service its debt on a timely basis or otherwise the need for debt re-scheduling. The statistics show that the Ivory Coast whose total debt

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outstanding represented nearly 88% of GNP was carrying average borrowing terms which largely reflect the commercial emphasis in its past borrowing strategy. Zambia whose borrowings stand at over 111% of its GNP enjoys overall average borrowing terms which are slightly more favourable than commercial and this is further mitigated by the substantial grant element in its total borrowings. Although Nigeria is one of the largest borrowers, its total debt represents only 20% of GNP and the average borrowing terms are essentially commercial whereas Egypt which is the largest borrower in absolute terms enjoys average borrowing terms that are significantly better than commercial because most of its borrowings are from bilateral sources carrying average maturities of as long as 32 years plus a substantial grant element.

In general, the following observations can be made :

a. The multilateral credit which has been channelled into industry in Africa has been used essentially to finance SMSE through DFCs. This is confirmed by World Bank loan statistics which show a net preponderance of lines of credit in its industry portfolio. This is also confirmed in the African Development Bank loan statistics which show at 31 December 1984 over U.A. 400.0 m in lines of credit and only about U.A. 140 m in direct loans for industry.

b. Overall, industry has generally not been a high priority in most African states and most of the industrial development that has taken place has been financed either from bilateral sources or by private creditors (suppliers and financial markets). This point is significant because these are the types of credits that are reschedulable (Club of Paris for bilateral loans and Sterling Club for commercial loans).

c. Countries with substantial commercial debt exposure might experience much slower recovery, but again only after repeated debt renegotiations unless the loan resources were primarily channelled into directly productive sectors which can be easily "pulled-out" of recession by an appropriate stimulus package. On the other hand if an inconsiderate amount of capital inflows was channelled into non-productive or inductive sectors, then countries with substantial commercial loan exposure may suffer through a longer than anticipated period of economic recession.

d. The total debt of certain countries as a percentage of GNP has reached alarming proportions and clearly such countries are rapidly approaching the limit of their sovereign borrowing capacity. In some cases loan rescheduling may not succeed in re-establishing the credit worthiness necessary to attract the volume of fresh funds needed for economic revitalization. In other cases the high proportion of non-reschedulable debt limits the scope for seeking debt service relief.

e. Large scale industrial projects which have been undertaken in Africa (usually in the areas of refining, chemicals, fertilizers, pulp and paper, sugar etc.) have been financed primarily by suppliers credits in conjunction with some bilateral support. But overall the borrowing terms reflect the commercial character of such funding sources. By and large, projects of this scale which are generally known as "white elephants" have been unsuccessful and are either operating at a small fraction of their capacity or stand idle for various reasons for several months at a time. Although the loans are, in principle, re-negotiable, the total sovereign debt position of the country may be such that re-scheduling may not provide the incremental borrowing capacity necessary either for industrial rehabilitation or for the creation of new productive capacity in other sub-sectors.

In conclusion it is acknowledged that there are enough common elements in the economic predicament of African states which justify and even necessitate a concerted approach in the search for some of the solutions. Although the total debt of the continent has reached unserviceable proportions, a fact which is now impeding economic recovery, a closer look at each country's debt profile reveals distinctive features which lead to the conclusion that Africa is far from being a gigantic monolith from the standpoint of the medium term economic recovery prospects and the long term development potential of its constituents. In the future major development projects must be evaluated, not only on the basis of the classical measures of project worth such as discounted cashflows, pay back periods, internal rate of return etc., but also from the standpoint of how its funding alters the debt profile of the country and its long term borrowing strategy.

N.N. SUSUNGI

MAY 1985

IBRD LOANS (IN MILLIONS)
Approvals By Sector
Position as at 30/6/84

Country	Total	Agriculture and SALS		Transport		Public Utilities		Industry & Banks		Education & Health	
		Approved	%	Approved	%	Approved	%	Approved	%	Approved	%
Ivory Coast	1,279.33	581.65	45.0	249.19	19.0	314.4	24.5	75.93	5.8	58.16	4.5
Egypt	2,378.70	175.5	7.3	413.49	17.3	750.3	31.5	1001.41	42.0	38.00	1.5
Kenya	1,064.97	217.49	20.0	283.5	26.5	425.4	39.9	128.58	12.0	10.0	0.9
Morocco	2,388.62	714.08	29.8	121.3	5.0	577.2	24.1	788.04	33.0	188.00	7.8
Tunisia	1,319.06	231.14	17.5	251.95	19.0	508.14	38.5	250.56	19.0	77.27	5.8
Zambia	587.1	147	25.0	83.45	14.1	169.52	28.7	133.57	22.7	63.56	10.7
Nigeria	2,490.16	982.65	39.4	369.44	14.8	537.27	21.5	546.29	21.9	54.51	2.1

TOTAL DEBT OUTSTANDING
INCLUDING UNDISBURSED COMMITMENTS
Position as at 31/12/82

	Total	Multilaterial	%	Bilateral	%	Suppliers	%	Financial Markets	%
Ivory Coast	6283.4	1293.8	20.5	883.8	14.0	433.8	6.8	3672.0	58.4+
Egypt	19291.2	4223.1	21.8	11341.2	58.7+	3070.9	15.9	656.0	3.4
Kenya	3656.9	1751.5	47.8+	1003.5	27.4	214.2	5.8	687.7	18.7
Morocco	12098.9	2347.0	19.3	4462.8	36.8	584.1	4.8	4705.0	38.8+
Tunisia	4923.1	1234.2	25.0	2693.0	54.7+	197.4	4.0	798.1	16.2
Zambia	3201.1	876.8	27.3	1517.3	47.3+	342.5	10.6	464.5	14.4
Nigeria	14697.1	1698.3	11.5	965.4	6.5	11.5	0.07	12021.9	81.7+
Sudan	6455.9	1610.4	24.9	3407.2	52.7+	216.8	3.3	1221.5	18.9
Zaïre	4762.7	938.5	19.6	2481.1	52.0+	302.5	6.3	1040.6	21.8
Tanzania	2673.6	1374.8	51.4+	1085.2	40.5	118.0	7.0	94.8	3.6
Low Income Africa	30275.1	10592.0	34.9	14098.0	46.5	1604.9	5.2	3970.4	13.1
Africa South Shara	72582.3	20153.3	27.7	23854.1	32.8	3239.2	4.4	25325.8	34.8

SOME DEBT STATISTICS
As at 31/12/82

	GNP	TD/GNP (%)	Average Int. (%)	Average maturity	Average grace prd.	Grant Element (%)
Ivory Coast	7,162	87.7	13.5	12.5	4.1	-16.9
Egypt	28,517	67.6	7.8	24.3	3.4	17.0
Kenya	6,247	58.5	6	31.6	6.4	35.1
Morocco	14,954	80.9	10.2	10.6	3.2	4.2
Tunisia	7,948	61.9	7.1	20.4	4.7	20.1
Zambia	2,880	111 %	6.1	21.1	5.5	26.0
Nigeria	71,371	20.5	13.9	8.9	3.5	18.5
Sudan	7,149	90.2	3.6	20.6	5.6	42.0
Zaïre	5,161	92.2	2.2	39.8	8.5	67.8
Tanzania	5,369	49.7	4	30.7	8	48.7